

REPORT OF EXAMINATION
OF THE
CALIFORNIA MUTUAL INSURANCE
COMPANY

AS OF
DECEMBER 31, 2006

Filed April 14, 2008

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San Francisco, California
March 5, 2008

Honorable Steve Poizner
Insurance Commissioner
California Department of Insurance
Sacramento, California

Dear Commissioner:

Pursuant to your instructions, an examination was made of the

CALIFORNIA MUTUAL INSURANCE COMPANY

(hereinafter referred to as the Company) at its home office located at 650 San Benito Street, Suite 250, Hollister, California 95023.

SCOPE OF EXAMINATION

The previous examination of the Company was made as of December 31, 2002. This examination covers the period from January 1, 2003 through December 31, 2006. The present examination included a review of the Company's practices and procedures, an examination of management records, tests and analyses of detailed transactions, and an evaluation of assets and a determination of liabilities as of December 31, 2006, as deemed necessary under the circumstances.

In addition to those items specifically commented upon in this report, other phases of the Company's operations were reviewed including the following areas that require no further comment: corporate records; fidelity bonds and other insurance; officers', employees' and agents' welfare and pension plans; growth of company; business in force by states; loss experience; and sales and advertising.

COMPANY HISTORY

Effective August 9, 2006, the Company amended its Articles of Incorporation to reflect the change of its name to California Mutual Insurance Company from Mid-State Mutual Insurance Company.

MANAGEMENT AND CONTROL

The Company is a mutual insurer owned by its policyholders who numbered approximately 2,919 as of December 31, 2006. Management of the Company is vested in a seven-member board of directors. As of December 31, 2006, the directors and principal officers were as follows:

Directors

<u>Name and Residence</u>	<u>Principal Business Affiliation</u>
Kenneth C. Bettencourt Gilroy, California	President Ridgemark Corporation
Elwood W. Dryden Hollister, California	Owner Dryden Farms
George E. Lim Corte Madera, California	Western Region Director Newport Financial Group
Steven I. Miller Hollister, California	President California Mutual Insurance Company
Sandy L. Rose Hollister, California	Retired
James E. Rollins Hollister, California	Retired
Edward T. Stephenson Hollister, California	Retired

Principal Officers

Steven I. Miller
Cheri L. Schmidt
Dorothy N. Burmester

President
Senior Vice President and Treasurer
Vice President and Secretary*

* Ms. Burmester retired as of October, 2007 and Mr. Stephenson replaced her as Secretary on February 8, 2008.

TERRITORY AND PLAN OF OPERATION

As of December 31, 2006, the Company was licensed to write fire, surety, plate glass, liability, burglary and miscellaneous classes of business in the State of California only. In 2006, approximately 65% of its \$5.1 million in direct premiums was commercial multiple peril business written on motels, strip malls and other small businesses. The remaining was written in the homeowners multiple peril line of business. All business is written through 38 agents and Company staff.

REINSURANCE

Assumed

The Company assumes 2% of a reciprocal catastrophe pool from the Mutual Reinsurance Bureau.

Ceded

Following is a schedule of the ceded reinsurance agreements in-force as of the examination date:

Type of Contract and Lines of Business	Reinsurer(s)*	Company's Retention	Reinsurers' Limits
<u>Multi-Line Excess of Loss</u> Property and Casualty	Munich Reinsurance America, Inc. – 60% Odyssey America Reinsurance Corporation – 25% Hannover Ruckversicherung AG – 15%	\$250,000 per occurrence	<u>1st Layer:</u> \$750,000 excess of \$250,000 per occurrence
	Munich Reinsurance America, Inc. – 60% Odyssey America Reinsurance Corporation – 25% Hannover Ruckversicherung AG – 15%	\$1 million per occurrence	<u>2nd Layer:</u> \$1.2 million excess of \$1 million per occurrence
	Munich Reinsurance America, Inc.	\$2 million per occurrence	<u>Clash:</u> \$1 million excess of \$2 million per occurrence
<u>Property Excess of Loss</u>	Munich Reinsurance America, Inc.	\$2 million per occurrence	\$4 million excess of \$2 million per occurrence
<u>Catastrophe Excess of Loss</u>	Swiss Reinsurance America Corporation – 50%	\$600,000 per occurrence plus up to 2.5% of \$1.4 million	<u>1st Layer:</u> \$1.4 million excess of \$600,000 per occurrence
	Various Lloyds Syndicates – 47.5%	\$2 million per occurrence plus up to 2.5% of \$3 million	<u>2nd Layer:</u> \$3 million excess of \$2 million per occurrence
	Mutual Reinsurance Bureau	\$5 million per occurrence	<u>3rd Layer:</u> \$1 million excess of \$5 million per occurrence
<u>Excess of Loss - Property Facultative</u>	Munich Reinsurance America, Inc.	\$6 million per risk	Up to \$4 million excess of \$6 million per risk. Limit is determined by amount purchased which is based on policy coverage.

* All reinsurers are authorized

ACCOUNTS AND RECORDS

Information Systems Controls

A limited review was conducted of the Company's general controls over its electronic information system. Based on the review, weaknesses were noted in the area of business continuity/disaster recovery planning and logical access security/information security. The control weaknesses that were noted were provided to the Company. It is recommended that the Company review the comments and recommendations and institute steps to strengthen its information systems controls.

FINANCIAL STATEMENTS

The financial statements prepared for this examination report include:

Statement of Financial Condition as of December 31, 2006

Underwriting and Investment Exhibit for the Year Ended December 31, 2006

Reconciliation of Surplus as Regards Policyholders from December 31, 2002
through December 31, 2006

Statement of Financial Condition
as of December 31, 2006

<u>Assets</u>	<u>Ledger and Nonledger Assets</u>	<u>Assets Not Admitted</u>	<u>Net Admitted Assets</u>	<u>Notes</u>
Bonds	\$ 7,305,559	\$	\$ 7,305,559	
Common stocks	5,331,326		5,331,326	
Cash and short-term investments	1,366,693		1,366,693	
Investment income due and accrued	103,179		103,179	
Uncollected premiums and agents' balances in the course of collection	718,922	855	718,067	(1)
Reinsurance other amounts receivable under reinsurance contracts	146,431		146,431	
Guaranty funds receivable or on deposit	32,307		32,307	
Electronic data processing equipment and software	414,066	414,066		
Furniture and equipment	3,069	3,069		
Aggregate write-ins for other than invested assets	<u>105,619</u>	<u>5,000</u>	<u>100,619</u>	
Total assets	<u>\$15,527,171</u>	<u>\$ 422,990</u>	<u>\$15,104,181</u>	
<u>Liabilities, Surplus and Other Funds</u>				
Losses			\$2,450,836	(2)
Loss adjustment expenses			414,942	(2)
Commissions payable			3,249	
Other expenses			288,698	
Taxes, licenses and fees			(14,291)	
Current federal and foreign income taxes			(66,130)	
Net deferred tax liability			520,509	
Unearned premiums			2,530,875	
Advance premium			0	(3)
Ceded reinsurance premiums payable			129,884	
Aggregate write-ins for liabilities			<u>0</u>	(4)
Total liabilities			6,258,572	
Unassigned funds (surplus)		<u>\$8,845,609</u>		
Surplus as regards policyholders			<u>8,845,609</u>	
Total liabilities, surplus and other funds			<u>\$15,104,181</u>	

Underwriting and Investment Exhibit
for the Year Ended December 31, 2006

Statement of Income

Underwriting Income

Premiums earned		\$4,178,988
Deductions:		
Losses incurred	\$1,247,149	
Loss expenses incurred	520,417	
Other underwriting expenses incurred	<u>1,946,979</u>	
Total underwriting deductions		<u>3,714,545</u>
Net underwriting gain		464,443

Investment Income

Net investment income earned	\$ 385,964	
Net realized capital gains	<u>424,953</u>	
Net investment gain		810,917

Other Income

Net loss from agents' or premium balances charged off	\$ (1,873)	
Finance and service charges not included in premiums	<u>9,916</u>	
Total other income		<u>8,043</u>
Net income before federal and foreign income taxes		1,283,403
Federal and foreign income taxes incurred		<u>277,711</u>
Net income		<u>\$1,005,692</u>

Capital and Surplus Account

Surplus as regards policyholders, December 31, 2005		\$8,030,629
Net income	\$ 1,005,692	
Change in net unrealized capital gains	208,244	
Change in net deferred income tax	(65,672)	
Change in nonadmitted assets	<u>(333,284)</u>	
Change in surplus as regards policyholders for the year		<u>814,980</u>
Surplus as regards policyholders, December 31, 2006		<u>\$8,845,609</u>

Reconciliation of Surplus as Regards Policyholders
from December 31, 2002 through December 31, 2006

Surplus as regards policyholders, December 31, 2002, per Examination	\$5,113,735
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	Gain in Surplus	Loss in Surplus
Net income	\$3,861,848	\$
Net unrealized capital gains	702,148	
Change in net deferred tax		586,135
Change in nonadmitted assets		245,987
Total gains and losses	<u>\$4,563,996</u>	<u>\$ 832,122</u>

Increase in surplus as regards policyholders	<u>3,731,874</u>
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Surplus as regards policyholders, December 31, 2006, per Examination	<u>\$8,845,609</u>
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COMMENTS ON FINANCIAL STATEMENT ITEMS

(1) Uncollected Premiums and Agents' Balances in the Course of Collection

The Company included in the above account premium installments booked but deferred and not yet due, which is not in accordance with the National Association of Insurance Commissioners' Annual Statement Instructions. It is recommended that the Company report the deferred installments under Deferred Premiums and Agents' Balances and Installments Booked but Deferred and Not Yet Due – line 13.2 of the Annual Statement.

The Company indicated that due to the limitation of its old premium application system, it could not separate deferred installments into a separate component. The Company, however, did indicate that with the implementation of a new premium application system, it can properly report deferred installments in the future.

(2) Losses and Loss Adjustment Expenses

A Casualty Actuary from the California Department of Insurance reviewed the Company's loss reserves as of December 31, 2006. Based on that review, the Company's December 31, 2006 reserves for losses and loss adjustment expenses were determined to be reasonably stated and have been accepted for purposes of this examination.

(3) Advance Premium

The Company is not in compliance with Statements of Statutory Accounting Principles (SSAP) 53, paragraph 13, because it did not report Advance Premium. It is recommended that the Company comply with SSAP 53, paragraph 13. No adjustment was made to the Company's balance sheet as the amount of advance premium, totaling \$14,387, was not considered material.

(4) Aggregate Write-ins for Liabilities

The Company is not in compliance with California Insurance Code (CIC) Section 11558 because it did not establish the minimum reserve requirements as prescribed by this code section. It is recommended that the Company comply with CIC Section 11558. No adjustment was made to the Company's balance sheet as the amount of \$18,400 was not considered material.

SUMMARY OF COMMENTS AND RECOMMENDATIONS

Current Report of Examination

Accounts and Records – Information Systems Controls (Page 5): It is recommended that the Company institute steps to strengthen its information systems controls.

Comments on Financial Statement Items - Uncollected Premiums and Agents' Balances in the Course of Collection – (Page 9): It is recommended that the Company report its deferred installment under Deferred Premiums and Agents' Balances and Installments Booked but Deferred and Not Yet Due, line 13.2 of the Annual Statement.

Comments on Financial Statement Items - Advance Premium (Page 9): It is recommended that the Company comply with Statements of Statutory Accounting Principles 53, paragraph 13.

Comments on Financial Statement Items -Aggregate Write-ins for Liabilities (Page 10): It is recommended that the Company comply with California Insurance Code Section 11558.

Previous Report of Examination

None

ACKNOWLEDGMENT

Acknowledgment is made of the cooperation and assistance extended by the Company's officers and employees during the course of this examination.

Respectfully submitted,

_____/S/_____
Yania Munro
Examiner-In-Charge
Department of Insurance
State of California